

**REPORT OF THE AUDIT OF THE  
SPENCER COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**May 16, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE 502.573.0050  
FACSIMILE 502.573.0067**



**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
SPENCER COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**May 16, 2005**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Spencer County Sheriff as of May 16, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$6,007,843 for the districts for 2004 taxes, retaining commissions of \$219,970 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,785,247 to the districts for 2004 Taxes. Taxes of \$164 are due to the districts from the Sheriff and refunds of \$6,826 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$17,483 To Protect Deposits

**Deposits:**

The Sheriff's deposits were undercollateralized by \$17,483 on May 16, 2005.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2004 TAXES .....	3
NOTES TO FINANCIAL STATEMENT .....	5
COMMENTS AND RECOMMENDATIONS .....	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	13





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable David Jenkins, Spencer County Judge/Executive

Honorable Steve Coulter, Spencer County Sheriff

Members of the Spencer County Fiscal Court

Independent Auditor's Report

We have audited the Spencer County Sheriff's Settlement - 2004 Taxes as of May 16, 2005. This tax settlement is the responsibility of the Spencer County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Spencer County Sheriff's taxes charged, credited, and paid as of May 16, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable David Jenkins, Spencer County Judge/Executive  
Honorable Steve Coulter, Spencer County Sheriff  
Members of the Spencer County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$17,483 To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
December 13, 2005



SPENCER COUNTY  
STEVE COULTER, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2004 TAXES

May 16, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 582,313	\$ 1,009,452	\$ 3,391,490	\$ 838,274
Tangible Personal Property	13,536	28,086	56,761	38,954
Intangible Personal Property				17,186
Fire Protection	448			
Increases Through Exonerations	70	126	399	102
Franchise Corporation	17,878	36,533	77,140	
Additional Billings	6,962	12,091	33,878	15,154
Bank Franchises	17,538			
Penalties	3,762	6,579	21,851	5,453
Adjusted to Sheriff's Receipt	7	11	1	7
Gross Chargeable to Sheriff	<u>\$ 642,514</u>	<u>\$ 1,092,878</u>	<u>\$ 3,581,520</u>	<u>\$ 915,130</u>
<u>Credits</u>				
Exonerations	\$ 3,479	\$ 6,328	\$ 20,200	\$ 5,096
Discounts	9,774	16,425	54,537	14,164
Delinquents:				
Real Estate	8,495	15,098	49,474	12,229
Tangible Personal Property	903	1,860	3,891	2,246
Total Credits	<u>\$ 22,651</u>	<u>\$ 39,711</u>	<u>\$ 128,102</u>	<u>\$ 33,735</u>
Taxes Collected	\$ 619,863	\$ 1,053,167	\$ 3,453,418	\$ 881,395
Less: Commissions *	26,632	34,721	120,870	37,747
Taxes Due	\$ 593,231	\$ 1,018,446	\$ 3,332,548	\$ 843,648
Taxes Paid	592,799	1,017,517	3,331,543	843,388
Refunds (Current and Prior Year)	962	1,635	5,306	1,403
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (530)</u>	<u>\$ (706)</u>	<u>\$ (4,301)</u>	<u>\$ (1,143)</u>

\* and \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

SPENCER COUNTY  
 STEVE COULTER, COUNTY SHERIFF  
 SHERIFF'S SETTLEMENT - 2004 TAXES  
 May 16, 2005  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on		2,235,552
3.5% on		3,453,417
1% on		308,874

\*\* Special Taxing Districts:

Library District	\$	(163)
Health District		164
Extension District		(182)
Soil Conservation District		(52)
Spencer County Fire District		(410)
Mt. Eden Fire District		(38)
Watershed District		(25)
		<hr/>
Due Districts or (Refunds Due Sheriff)	\$	<u>(706)</u>

SPENCER COUNTY  
NOTES TO FINANCIAL STATEMENT

May 16, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of May 16, 2005, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$17,483 of public funds uninsured and unsecured.

SPENCER COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 16, 2005  
(Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of May 16, 2005.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Uncollateralized and uninsured	<u>17,483</u>
Total	<u>\$ 117,483</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 18, 2004 through May 16, 2005.

Note 4. Interest Income

The Spencer County Sheriff earned \$5,354 as interest income on 2004 taxes. The Sheriff will distribute the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of May 16, 2005, the Sheriff owed \$164 in interest to the school district and \$2,383 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Spencer County Sheriff collected \$28,638 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of December 15, 2005, the Sheriff owed \$28,638 in 10% add-on fees to his fee account.

## COMMENTS AND RECOMMENDATIONS



SPENCER COUNTY  
STEVE COULTER, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of May 16, 2005

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the monthly tax reports to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response: Sheriff agrees.*

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$17,483 To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of May 16, 2005, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$17,483 of public funds uninsured and unsecured. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response: Will comply with recommendation.*

SPENCER COUNTY  
STEVE COULTER, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of May 16, 2005  
(Continued)

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This has not been corrected and is repeated in the current year.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable David Jenkins, Spencer County Judge/Executive  
Honorable Steve Coulter, Spencer County Sheriff  
Members of the Spencer County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Spencer County Sheriff's Settlement - 2004 Taxes as of May 16, 2005, and have issued our report thereon dated December 13, 2005. The Spencer County Sheriff prepares the financial statement in accordance with a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Spencer County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Spencer County Sheriff's Settlement - 2004 Taxes as of May 16, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$17,483 To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
December 13, 2005

